STERLING TRUST
A Division of Equity Trust Company

SIMPLIFIED EMPLOYEE PENSION REQUIREMENTS

INSTRUCTIONS AND GUIDELINES

A **Simplified Employee Pension (SEP)** is a plan which, subject to certain conditions, enable an employer to make deductible contributions to its employees' IRAs. For 2009, if the plan meets the SEP requirements, the employer may deduct up to the lesser of $49,000 or 25% of the employee's compensation for amounts contributed to the IRA by the employer. For 2010, up to $49,000 may be deducted. In addition, an employee may make his or her annual IRA contributions up to the lesser of $5,000 (or $6,000 if age 50 or over) or 100% of compensation, and may be entitled to a deduction for such contribution.

The following is a general description of the requirements of a Simplified Employee Pension:

1. The employer makes contributions to Individual Retirement Accounts for all of his employees who have (a) attained age twenty-one (21) and (b) performed service during at least three of the five preceding calendar years.

2. The contributions must bear a uniform relationship to the total compensation of each employee. The contributions may not discriminate in favor of officers, 10% shareholders, self-employed or highly compensated individuals.

3. For 2009, only the first $245,000 of compensation may be taken into account in determining the amount of employer contribution. For 2010, the annual COLA for maximum SEP compensation (under §408(k)(2)(c)) is $245,000.

4. The contributions must be 100% vested when made, and the employer may make no restrictions on withdrawal from the IRAs.

5. The contributions must be made under a written allocation formula specifying the requirements for participation in the allocation and the method of computing the allocation. Contributions must be made no later than the due date of the employer tax return, plus extensions.

6. The regular individual retirement plan tax rules generally govern the IRA of each employee, except that the dollar limitation on deductibility of contributions is increased to the annual DC limit under §415(c)(1)(A). Also, the employee can make regular annual contributions to the IRA as described above.

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When the requirements of the Simplified Employee Pension are met, the employer will be entitled to a tax deduction for contributions not exceeding 25% of the compensation paid to his employees during the calendar year ending with or within the taxable year. The employee will not be required to include the amount of the employer's contribution to his IRA in computing his gross income for tax purposes.

An employer establishing a SEP Plan will be responsible for certain administrative tasks, including determination of eligible employees and calculation of contributions for each participant. Sterling Trust does not perform any of these employer administrative functions, nor does it offer such services at an additional fee. Sterling's responsibility shall be limited to the custodial duties associated with any participant IRAs established with Sterling under the Plan.

An employer may establish a Simplified Employee Pension by executing an Agreement on ***IRS Form 5305-SEP,*** which follows this page and which describes in more detail the characteristics and requirements of a Simplified Employee Pension. A copy of ***IRS Form 5305-SEP*** must be given to each covered employee.

SUBMISSION OPTIONS

OVERNIGHT:
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CONTACT INFORMATION

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For assistance, please contact a Client Services Representative at:

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Or e-mail questions to:
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